

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SS-20 PM-07 L-03 INR-11 H-03 EB-11

SAM-01 PRS-01 PA-04 SCI-06 SP-03 DRC-01 RSC-01 /087 W

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P R 220530Z AUG 74 ZFF4

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 4006

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L JAKARTA 10342

STADIS////////////////////////////////////

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: ENERGY: INDONESIAN LNG

REF: JAKARTA 8133

1. SUMMARY: PACIFIC LIGHTING (PL) REP CALLED EMBOFF AUGUST 20 SAYING PL RECEIVED TELEX FROM PERTAMINA INFORMING PL THAT GOI DECIDED TO TERMINATE LNG SALES CONTRACT EFFECTIVE AUGUST 14 LEAVING DOOR OPEN, HOWEVER, FOR DISCUSSION FUTURE LNG SALE. PL REP REQUESTED EMBASSY ASSISTANCE IN CONTACTING PERTAMINA AND REQUESTING GOI/PERTAMINA DELAY TERMINATION 3-4 MONTHS. ALTHOUGH GOI DIRECTOR OIL AND GAS AND PERTAMINA REP ARE NOT DISPOSED TO GRANT PL ADDITIONAL TIME, ESPECIALLY GIVEN UNCERTAINTY FPC APPROVAL AND EXIM FINANCING, PL REQUEST WILL BE PUT TO GENERAL IBNU FOR DECISION WHEN HE RETURNS TO JAKARTA AUGUST 23 OR 24. ACTION REQUESTED: WE WOULD APPRECIATE DEPARTMENT'S ASSESSMENT OF 1) TIME-TABLE AND LIKELIHOOD FAVORABLE FPC RULING IF PL-PERTAMINA REACH AGREEMENT ON PRICE IN \$1.65 RANGE AND 2) EXIM FINANCING CAPABILITY IF AGREEMENT REACHED AND CONTRACT APPROVED BY FPC. END SUMMARY.

2. DURING MORNING AUGUST 20 PL OFFICER (GENE O'ROURKE)

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CALLED FROM LOS ANGELES TO INFORM EMBOFF THAT PL (RAY TODD)

HAD RECEIVED FOLLOWING TELEX DATED AUGUST 19 FROM  
PERTAMINA (TIRTO UTOMO).

3. BEGIN QUOTE: HAVE SENT LETTER DATED 14TH AUGUST 1974  
TO YOU READING AS FOLLOWS: WE WOULD REFER TO OUR LETTER  
DATED 7TH MAY 1974 CONCERNING OUR CABLE OF 3RD MAY 1974  
CONCERNING ARTICLE 19 PARAGRAPH 2 OF THE ABOVE  
CONTRACT, IN WHICH WE INFORMED YOU THAT THE GOVERNMENT  
OF THE REPUBLIC OF INDONESIA Q.Q. (E.E.,) MINISTER OF  
MINES DID NOT APPROVE SAID CONTRACT. SINCE THE PRICE  
FORMULA DID NOT REFLECT THE DEVELOPMENT OF THE  
ENERGY PRICES IN JANUARY, AND PARTICULARLY WAS NOT  
LINKED TO THE PRICES OF THE INDONESIAN CRUDE OIL, THE  
GOVERNMENT ALLOWED SOME LIMITED TIME TO AMEND THE  
PRICE ARTICLE ACCORDINGLY. SUFFICIENT TIME HAS BEEN  
GIVEN TO ACHIEVE A SOLUTION WITH REGARD TO THE ABOVE  
MENTIONED ARTICLE AND SEVERAL MEETINGS HAVE BEEN CON-  
DUCTED BETWEEN THE PARTIES WITHOUT HOWEVER REACHING A  
SOLUTION, THEREFORE, THE GOVERNMENT INFORMED US THAT  
NO FURTHER TIME COULD BE GIVEN AND TERMINATION OF SAID  
CONTRACT BE DETERMINED AS OF THE DATE OF THIS LETTER.  
NEVERTHELESS, HAVING IN MIND OUR MUTUAL WISH TO  
COOPERATE IN THIS REGARD, WE CERTAINLY ARE NOT RELUCTANT  
TO TAKE THE MATTER UNDER CONSIDERATION WHENEVER YOU  
WOULD BE INTERESTED IN LNG FROM SOURCES IN THE EASTERN  
OR OTHER PARTS OF INDONESIA, WHICH MIGHT REDUCE THE  
TRANSPORTATION COSTS CONSIDERABLY. END QUOTE.

4. O'ROURKE SAID HE HAD PLACED CALL EARLIER TO TIRTO  
UTOMO AND ASKED EMBOFF TO ASSIST IN LOCATING TIRTO.  
O'ROURKE ALSO ASKED EMBASSY ASSISTANCE IN OBTAINING  
GOI/PERTAMINA AGREEMENT POSTPONE TERMINATION DECISION  
3-4 MONTHS "WHEN EITHER WORLD LNG PRICE WOULD BE  
ESTABLISHED ELSEWHERE I.E., BY SONATRACH, AND PL WOULD  
HAVE TO BITE BULLET OR WORLD LNG PRICE WOULD BE LOWER  
AND PERTAMINA WOULD HAVE TO ACCEPT LESS." ACCORDING  
TO O'ROURKE, LNG CONTRACT DOES NOT PROVIDE LEGAL BASIS  
FOR "UNILATERAL CANCELLATION BY EITHER PARTY."  
O'ROURKE SAID, HOWEVER, THAT IF GOI/PERTAMINA WOULD AGREE  
TO DELAY TERMINATION, HE WAS PREPARED MEET WITH PERTAMINA  
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REP AND WORK OUT DETAILS PROVIDING FOR "MUTUAL  
DISSOLUTION" OF CONTRACT ON SPECIFIED DATE IF AGREEMENT  
NOT REACHED ON PRICE. O'ROURKE ALSO ASKED IF AMBASSADOR  
COULD MEET WITH MINMINING SADLI REQUESTING EXTENSION.

5. EMBOFF SAID HE WOULD ATTEMPT CONTACT TIRTO AND  
WOULD INFORM AMBASSADOR OF PL REQUEST. EMBOFF  
POINTED OUT GOI/PERTAMINA SUBJECT TO NUMEROUS PRESSURES

RELATED TO LNG PROJECTS, E.G., JAPANESE INTEREST IN PURCHASING ADDITIONAL LNG, NEED TO FINALIZE CONSTRUCTION PLANS AND FINANCING, NEED FOR DECISION ON PETROCHEMICAL PLANT ASSOCIATED WITH ACEH LNG PLANT, ETC. O'ROURKE AGREED OUTLOOK FOR PERTAMINA AGREEMENT NOT RPT NOT OPTIMISTIC.

6. DURING CONVERSATION LATE AUGUST 20, GOI DIRECTOR FOR OIL AND GAS (WIJARSO) SAID O'ROURKE-TIRTO TELECON TOOK PLACE AFTERNOON AUGUST 20 BUT WIJARSO NOT AWARE OF OUTCOME. WIJARSO EXPRESSED SERIOUS RESERVATIONS ABOUT FURTHER DELAY, "ESPECIALLY SINCE WE HAVE NO ASSURANCE FPC WILL APPROVE THE CONTRACT EVEN IF WE REACH AGREEMENT ON PRICE." WIJARSO ASKED RHETORICALLY, "WHY SHOULD WE WAIT LONGER? WE HAVE ALREADY LOST TOO MUCH TIME AND TOO MANY OPPORTUNITIES." WIJARSO REFERRED TO GOI/PERTAMINA INTEREST IN LNG SALE TO WEST COAST AND MENTIONED PERTAMINA WILLINGNESS TO DISCUSS FUTURE SALE OF GAS FROM EASTERN PARTS OF INDONESIA. WIJARSO SUGGESTED EMBOFF CONTACT TIRTO.

6. DURING CONVERSATION EARLY AUGUST 21, TIRTO ECHOED WIJARSO'S RESERVATIONS ABOUT DELAY. TIRTO SAID HE HAD SECOND TELECON WITH O'ROURKE AUGUST 21 AND PLANNED TO DISCUSS PL REQUEST WITH GEN IBNU ON HIS RETURN TO JAKARTA AUGUST 23 OR 24. TIRTO COMMENTED IT WAS UNFORTUNATE GOI/PERTAMINA HAD TO ISSUE ULTIMATUM IN ORDER OBTAIN PL RESPONSE. TIRTO WILL CONTACT EMBOFF AUGUST 23 FOR FURTHER DISCUSSION.

7. COMMENT: ONCE AGAIN PL-PERTAMINA LNG CONTRACT APPEARS TO BE REACHING CRITICAL STAGE. WHILE IT IS ENCOURAGING, INDONESIANS DID NOT REJECT OUTRIGHT PL'S CONFIDENTIAL

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REQUEST FOR EXTENSION, IT IS ABUNDANTLY CLEAR THAT THEY ARE ANNOYED WITH WHAT THEY CONSIDER PL FOOTDRAGGING. ACTION REQUESTED: WE WOULD APPRECIATE DEPARTMENT'S ASSESSMENT ON 1) TIMETABLE FOR AND LIKELIHOOD OF FAVORABLE FPC RULING IF PL-PERTAMINA AGREE ON F.O.B. PRICE IN \$1.65 PER MILLION BTU RANGE AND 2) EXIM FINANCING CAPABILITY SHOULD AGREEMENT BE REACHED AND CONTRACT APPROVED BY FPC.

8. DEPARTMENT MAY WISH PASS SUBSTANCE PARAS 2-6 TO EXIMBANK. PLEASE PASS SUBSTANCE PARAS 5-6 TO PL (O'ROURKE).  
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## Message Attributes

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